

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6600

BILL NUMBER: SB 246

NOTE PREPARED: Jan 1, 2010

BILL AMENDED:

SUBJECT: Income Tax Rate Adjustment.

FIRST AUTHOR: Sen. Buck

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X GENERAL
DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: The bill provides for a biennial reduction in the state adjusted gross income tax rate on residents, nonresidents, and corporations if year-over-year revenue from the adjusted gross income tax exceeds certain amounts. It provides that the minimum rate is 2.9% (3.4% for 2010) for individual taxpayers and 8% (8.5% for 2010) for corporate taxpayers. It also requires the Budget Agency to make the determination before July 1 of each even-numbered year and for the rate reduction to take effect in taxable years beginning in the immediately following odd-numbered year.

Effective Date: July 1, 2010.

Explanation of State Expenditures:

Explanation of State Revenues: *Summary:* It is estimated that the bill will not lead to rate reductions or revenue losses under the Individual Adjusted Gross Income (AGI) Tax or the Corporate AGI Tax from FY 2011 to FY 2014.

Background Information: The bill would permanently reduce both the Individual AGI Tax rate and Corporate AGI Tax rate, if the combined revenue from both taxes is determined to have grown by at least 3.1% over a two-year period. Under the bill, the State Budget Agency is required to determine the two-year average growth rate for the combined net revenue (after refunds) from both taxes. The determination must be made by September 1st of each even-numbered year. The determination requirement begins in 2010. The two-year average growth rate must be based on calendar year revenue from each tax during the three years prior to the even-numbered year in which the determination is made. This means the 2010 determination would be based

on revenue growth from 2007 to 2009. In the event that revenue growth determined by the State Budget Agency is at least 3.1%, the tax rate reduction would begin during the immediately following odd-numbered year - this would be 2011 for the 2010 growth rate determination. Determinations would once again be made by September 1st of 2012, based on the two-year average growth from 2009 to 2011. Any rate reductions based on this determination would begin in 2013. The procedure would continue on this two-year determination cycle thereafter.

The tax rate reduction schedule is specified in the table below. Under the bill, both taxes would be subject to the same tax rate reductions when revenue growth exceeds the levels specified in the table. However, the Individual AGI Tax rate could not be reduced below 2.9% (the current rate is 3.4%); and the Corporate AGI Tax rate could not be reduced below 8.0% (the current rate is 8.5%).

Two-Year Avg. Growth Rate		Tax Rate Reduction
At Least	Less Than	
3.1%	4.2%	0.1%
4.2%	5.3%	0.2%
5.3%		0.3%

It is estimated that the combined net revenue from the Corporate AGI Tax and Individual AGI Tax could show an 8.7% decline for the 2007-2009 period, and 1.95% growth for the 2009-2011 period. The long-run average growth rate for the Individual AGI Tax is 4.3% (based on FY 1990 to FY 2009), and the long-run average growth rate for the Corporate AGI Tax since tax restructuring is 2.5% (based on FY 2004 to FY 2009).

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: State Budget Agency; Department of State Revenue.

Local Agencies Affected:

Information Sources: Revenue Technical Committee Forecast (December 15, 2009).

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